

MELLON DESCRIBES BONUS BILL AS ATTACK ON SOUND BANKING

veterans would take the insurance loan certificate, on which banks are authorized to loan 50 per cent. for three years and the Government 80 per cent. until maturity at the end of twenty years.

He expresses the opinion that this would compel the Government to raise and disburse \$1,500,000,000 by October 31, 1925, not taking into account at least \$400,000,000 additional each year to meet current charges.

Regarding the land settlement feature of the Fordney bill which The New York Herald described this morning, the Secretary estimated the cost for carrying out its terms would be about \$100,000,000 per annum after 1925, if the redemption projects embodied in it are pressed.

If the ex-service men should elect to accept the insurance loan certificates, the Secretary says that the cost to the Government will be \$4,500,000,000, not counting carrying charges. If all the veterans should choose the farm and home aid feature of the "five year" plan, the cost would amount to \$2,500,000,000 within the next two or three years.

Estimates of Experts.

The Secretary in calling attention to the tables prepared by the Treasury experts on the hypothetical basis fixed by the committee, says that "no one can even approximately estimate the direct cash cost of the proposed bill to the Government for the next few years, and that by January 1, 1926, it will probably cost more than \$1,200,000,000, and may cost very much more if enough veterans should elect to take the farm and home aid during that period.

In an analysis of the feature of the bill authorizing the banks to advance loans on the certificates the Secretary shows that it is wholly undesirable. "The effect of this provision," he says, "will be to transfer the cost of policy loans from the Government to the banks and to place in their hands a mass of unliquid negotiable paper upon which the banks will be unable to realize until 1925." He says that the result would be "frozen bank loans and inflation of currency and credit."

He concurs in the opinion expressed by Senator Glass, the creator of the Federal Reserve system, that "to the extent that the banks are obliged to make loans on adjusted service certificates their ability to take care of the demands of business and industry will be correspondingly reduced."

Mr. Mellon says even though the certificates may not be eligible for rediscount at the Federal Reserve banks, "the indirect result is certain to be a credit borrowing by member banks from the Federal Reserve banks in order to provide the funds to carry the paper until it is either repaid by the borrower or redeemed by the Government in 1925."

Would Not Be Desirable Paper.

Regarding the acceptance of the certificate by the banks, the Secretary says that "it is not desirable collateral, and which may not be repaid for three years, is not desirable paper for commercial banks to hold."

Another serious objection to the bill which the Secretary points out is the provision that the loans be floated at the bank on the credit of the United States. The plan involves dangerous abuse of the Government's credit, says the Secretary, for it contemplates the issue of a vast amount of Government obligations which are "non-negotiable and have no present realizable value unless pledged with banks, in which event the obligations become, in effect, two or three years notes which the Government would be obliged to pay off in 1925 upon default by the veterans."

He says this practically means that cash payments on adjusted service certificates would be financed for the next three years upon forced loans from the banks.

Secretary Mellon declares the Secretary, "is borrowing on the credit of the United States fully as much as if the loans were made direct by the United States and financed by direct borrowing on Government bonds, notes or certificates of indebtedness."

Expense of Indirection.

In reflecting the point of view of the banking system and general business situation, the Secretary says "it would be far better if a bonus was to be financed by borrowing for the Government to resort to direct borrowing and to provide for direct policy loans on adjusted service certificates from the outset than to attempt to avoid direct cost to the Government for the time being, at the expense of both the banking system and the Government credit."

After calling attention to the tables prepared by the Treasury actuary, the Secretary continues:

"It is clear from these estimates that whatever form the soldiers' bonus may take, whether it contemplates the foregoing plan or follows the outlines of the bill which is pending, it will cost from \$300,000,000 to \$400,000,000 for the next three or four years, or may involve continuing liability thereafter of more than \$200,000,000 a year until 1943. It is impossible to avoid the cost if a bonus is to be adopted, and it is both dangerous and unwise to attempt to avoid it for the time being by throwing the burden upon the banks of the country and piling up for the Treasury an accumulated liability which in 1925 may amount to more than \$600,000,000."

The statements of Secretary Mellon confirm the objections to the insurance certificate loan scheme presented by Senator Glass, Senator Borah, Comptroller of the Currency Criesinger and the most responsible financial experts of the country.

Members agreed to-night that the outlook for the certificate loan plan was "uncertain." Secretary Mellon's letter will undoubtedly carry conviction to Senators and Representatives that the banks would be unable to analyze of the latest Fordney proposal.

Chairman Fordney's Opinion.

Mr. Fordney does not think the Secretary's letter will influence many members who so desire is to put the bonus paid through the House regardless of its fate in the Senate or at the hands of the President. He said that he had received Mr. Mellon's letter last night.

"It has not changed my views on the pending bill in the slightest degree," he said, "and I am very much of the opinion that the members of the committee will withdraw their support from the bill now under consideration. The fact is we have known for some

Financial Features of Bonus

Special Dispatch to THE NEW YORK HERALD.

New York Herald Bureau, Washington, D. C., March 12.

FOLLOWING are the exhibits of the financial features of the bonus bill as outlined by Secretary Mellon in his letter to Chairman Fordney:

EXHIBIT 1.

Fiscal Year	Cash	Certificate	Vocational	Farm and Home	Land Settlement	Total
1923	\$10,000,000	\$20,000,000	\$65,000,000	\$200,000,000	.....	\$295,000,000
1924	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1925	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1926	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1927	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1928	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1929	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1930	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1931	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1932	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1933	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1934	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1935	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1936	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1937	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1938	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1939	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1940	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1941	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1942	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1943	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000

Cost to the Government on the basis of 70 per cent. choosing the certificate plan of 23 per cent. the farm and home aid plan 5 per cent. vocational training, and 2 per cent. the land settlement plan.

EXHIBIT 2.

Fiscal Year	Cash	Certificate	Vocational	Farm and Home	Land Settlement	Total
1923	\$10,000,000	\$20,000,000	\$65,000,000	\$200,000,000	.....	\$295,000,000
1924	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1925	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1926	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1927	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1928	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1929	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1930	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1931	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1932	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1933	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1934	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1935	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1936	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1937	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1938	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1939	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1940	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1941	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1942	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1943	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000

Cost of certificate plan based on 70 per cent. taking certificates—and 30 per cent. of these borrowing and in default—35 per cent. of total possible certificates:

Fiscal Year	Cash	Certificate	Vocational	Farm and Home	Land Settlement	Total
1923	\$10,000,000	\$20,000,000	\$65,000,000	\$200,000,000	.....	\$295,000,000
1924	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1925	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1926	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1927	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1928	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1929	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1930	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1931	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1932	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1933	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1934	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1935	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1936	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1937	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1938	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1939	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1940	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1941	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1942	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1943	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000

Maximum cost to Government.

Fiscal Year	Cash	Certificate	Vocational	Farm and Home	Land Settlement	Total
1923	\$10,000,000	\$20,000,000	\$65,000,000	\$200,000,000	.....	\$295,000,000
1924	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1925	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1926	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1927	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1928	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1929	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1930	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1931	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1932	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1933	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1934	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1935	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1936	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1937	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1938	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1939	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1940	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1941	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1942	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000
1943	20,000,000	20,000,000	65,000,000	150,000,000	.....	260,000,000

Maximum cost to Government under each of the plans in H. R. 10769 (no allowance for borrowing).

EXHIBIT 5.

Maximum loans by banks—all veterans taking certificate plan and borrowing:

Fiscal Year	Loans	Repayment	Default
1923	\$187,784,375	100,000,000	
1924	612,262,000	212,715,625	
1925			
1926			
1927			
1928			
1929			
1930			
1931			

Total.....\$799,986,875.....\$400,000,000.....\$599,986,875

Eighty per cent. of value October 1, 1925, of certificates of defaulted loans.....\$662,437,600

Interest on defaulted loans.....\$209,800,875

Interest—estimated.....47,998,425.....\$447,985,300

Maximum payment to veterans.....\$214,432,905

Maximum cash payment on account of default in loans to banks.....\$662,437,600